

Internal Audit of Year-End Processes:

Accounts Receivable

Audit Program

Description

The audit steps detailed below are designed to review the processes that are used by a department for establishing year-end receivables. The audit techniques are not substantive tests; however, they may be expanded to perform tests of transactions and balances for determining that year-end receivables are accurate for your department.

Accounts receivable are amounts due to the State either from the federal government, taxpayers, vendors, local units of government, sub-grantees or recipients of goods and services delivered on or before September 30 but for which payment was not received. Receivables are generally only established at year-end and are typically established only for revenue that is both measurable and available. Other assets (e.g., inter-fund receivables, pre-paid expenditures and miscellaneous assets) are also adjusted during the year-end closing process.

The audit steps are designed as a starting point for conducting a review of receivables at the department level. Each department will be different both in the type and amount of receivables it has each year. As such, an understanding must be gained of each department's operations and policies regarding receivables. Departmental policies should closely follow what has been prescribed by DMB.

Accounts receivable may be recorded in R*STARS via several methods. Two of the most commonly used follow:

1. Record the detail of accounts receivable detail using the document_financial table. This allows R*STARS to capture and track detailed information on specific receivables including original amount, adjustments, collections, etc.
2. Record detail of accounts receivable in subsidiary records outside of R*STARS and updating R*STARS monthly or annually.

Objectives

1. Determine if accounts receivable and related revenue are "measurable," consistently measured, and recorded at the proper amount.
2. Determine if accounts receivable actually exist.
3. Determine if accounts receivable are properly classified as to type (i.e., from local units, from other funds) and period (i.e. current vs. non-current).
4. Determine the year-end accrual methodology for estimating receivable is acceptable.

How to Identify Population of Transactions

Accounts receivable are identifiable in MAIN via the general ledger (GL) codes in the series 0501 - 0589. The OFM Financial Reporting and Accounting Manual (FRAM) Chapter 11 provides a detailed list of the more common accounts receivable GLs, along with related transaction (TC) codes. Below is a brief list of those most widely used:

	GL
Federal A/R	
D/F (using Doc. Financial table i.e., R*STARS 64 screen)	0542
No D/F	0543
Local A/R	
D/F	0547
No D/F	0548
Miscellaneous A/R	
D/F	0501
No D/F	0503
Other Current Receivables	
D/F	0581
No D/F	0589

The most effective method to isolate your receivables will be by focusing on GL codes noted above and others noted in the FRAM.

Technical References

- Administrative Guide to State Government - procedure 1210.27
- OFM FRAM Chapter 11
- GASB Codification 1600

Audit Steps

1. Determine that the department has documented procedures for establishing all categories of its accounts receivables and other assets.
2. Review and document procedures the department uses to identify and account for uncollected/uncollectible receivables, and the methodology for write-off.
3. Determine which programs or processes normally have receivables and determine that there are not other programs that should be establishing year-end receivables.
4. Review the reasonableness of the methodology for establishing receivables and determine if there are procedures in place (for financial management staff) to ensure that the asset and related revenue are properly documented and recorded at the proper amount, in the proper fiscal year and the correct accounting classifications.
5. If an estimation methodology is used, consider performing an analytical review of prior year amounts for the program (estimate to actual) and/or a review of new-year collections (related to the old year) to determine the reasonableness of the estimate.